Financial Markets

3/6/84

B4750-1

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Mar. 2, 1984

Since year-end 1982, Fed easings and tightenings have been microscopic events for all but the most involved financial market participants. Nonetheless, during that time, the Fed has tightened and eased and has retracted its easing. It has used periods of rate uncertainty, particularly quarter-end, to change its policy. The Fed now seems to have begun to tighten again, using as cover the uncertainty and technical pressure of CRA.

In 1983, the Fed used quarter-end as a time to change the level of interest rates. Because Fed funds swing widely at quarter-end (for example, swings of 100 basis points occurred in adjacent weeks at the end of QIII and of QIV in 1983), market participants become more uncertain. Thus changes in Fed policy at these times are hard to detect. The funds rate dropped sharply in early 1983 to 8.5% from nearly 9.0% at year-end 1982: The level of rates moved abruptly to a lower trading range in the new year. After a turbulent end of the first quarter, rates hovered at the slightly higher level of 8.7%. Then, end-of-quarter turbulence emerged in June, and Fed funds suddenly were averaging 9.5% (or higher), where they remained for most of the third quarter. Rates gyrated again at end-September and--in a move the Fed called an easing--averaged 9.38% for most of the fourth quarter. The end of 1983 brought sharp rate movements and left the level of rates at 9.5% moving up to average 9.57% under the recent CRA period. What do these movements tell us?

First, the Fed does not necessarily tighten at quarter-end. But because of the rate disturbances that occur at these times, the Fed's pressure can't always be separated from technical influences. Thus the Fed gains some scope to test the waters of market reaction slowly as the higher level of rates comes to be understood as a policy change. CRA is one of these technical opportunities where rates were expected to be under upward pressure for "technical" reasons. The Fed has the opportunity here of just not letting the "technical" effect dissipate.

Of all the Fed's recent moves, this tightening might be the most subtle: It comes under the cover of CRA. Moreover, this tightening hasn't taken too much overt Fed effort--just one great big revision in the monetary data and "presto change" the market scattered. In early January, the market was willing to discount high Fed funds because the Fed was confessing to forecast errors in its reserve projections. These errors seemed to imply the less liquid funds market condition wasn't a matter of intentional (overt) policy. That's not the case anymore. But the most convincing case for tightening looks at what the Fed has agreed to do: It had said in December it would tighten under the right conditions. If the now-revised monetary data of 1983 had been in the FOMC's hands in December, it probably would have tightened then. Thus the FOMC is, in some sense, behind schedule. Moreover, two of the last three Fed policy moves occurred in a telephone conference, so why not this one? The good news is that past FOMC actions seem to imply that the Fed is still concerned about moving rates too high; as far as we know, the top of the Fed funds band is still at 10%.

Robert A. Brusca

Irving Trust

Market Yields

	3/2/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00	11.00%	10.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.75	9.63	8.38
Repurchase Agreements	9.40	9.35	8.38
U.S. Treasury Issues			
Bills			
3 months	9.49	9.53	8.21
6 months	9.89	9.89	8.39
1 year	10.16	10.19	8.59
Coupons			
2 years	10.95	10.98	9.28
4 years	11.47	11.48	9.64
7 years	11.90	11.88	10.13
10 years	11.98	11.99	10.26
Long Bond	12.08	12.12	10.44
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.60	9.55	8.25
3 months	9.70	9.65	8.25
6 months	9.95	9.90	8.35
1 year	10.60	10.25	8.60
Banker's Acceptances			
1 month	9.66	9.60	8.25
3 months	9.89	9.75	8.25
6 months	10.13	9.97	8.35
Eurodollar Deposits			
1 month	9.94	9.94	8.75
2 months	10.06	10.13	8.75
3 months	10.19	10.25	8.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.50	9.50	8.51
1 month	9.61	9.66	8.42
3 months	9.76	9.65	8.13
Bank Holding Companies			
1 month	9.07	9.07	8.04
Dealer Placed:			
3 months	9.80	9.77	8.41
New AA Corporate Utility Bond	13.00	13.15	11.75
Tax Exempt			
6 month Project Notes	5.25	5.25	4.30
1 year AAA Bond	5.50	5.70	4.50
5 year AAA Bond	7.00	6.90	6.00
20 year AAA Bond	9.30	9.10	8.25

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629